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Management Report

To: Clean Power Alliance (CPA) Board of Directors

From: Ted Bardacke, Executive Director

Subject: Management Report

Date: February 4, 2021

2021 Rate Update

On January 11, 2021, SCE filed its Advice Letter to implement new generation, delivery and PCIA rates, beginning on February 1, 2021. While SCE generation rates are roughly flat, the PCIA is increasing approximately 27% and delivery charges are increasing approximately 14%. These SCE rate changes will result in a 10%-11% overall bill increase for CPA customers *and* portends a revenue squeeze for CPA.

SCE is planning an additional rate change in June 2021 that staff believes will increase both delivery charges and generation charges, while keeping the PCIA flat. This change is expected to relieve some but not all of CPA's revenue decline.

This update is largely focused on the revenue impacts of the new SCE rates. An update on costs will be provided at the March board meeting.

Rate Change Drivers

There are two main drivers for the increased PCIA in 2021. First is true-ups to the value of renewables, resource adequacy, and energy in SCE's portfolio requiring more costs to be recovered from CPA customers in 2021 for SCE's expenses in 2020. In general, when prices for any of the products fall in the previous year, the PCIA goes up in the current year and vice-versa. Second, is amortization of amounts above the 2020 PCIA rate cap, known as the PUBA balance. Based on CPA's advocacy efforts, the PUBA balance will be amortized over three years instead of one, somewhat mitigating the magnitude of the 2021 PCIA increase.

The significant increase in SCE delivery charges is driven by an increase in transmission rates, updates to balancing accounts, and an increase in CARE participation in 2020, which has caused the cost of the CARE program to increase for all other customers.

Impact on CPA Revenue

The combination of a flat SCE generation rate and higher PCIA mean that for CPA to maintain its current bill comparison ranges it will have to reduce its own generation rates. Doing so automatically beginning in February would reduce CPA revenue by approximately $65 million (8%) in the next year. Since CPA's power procurement costs are unlikely to go down significantly in 2021 (and could even go up due to current market conditions) this level of revenue decrease would be extremely difficult to sustain.

CPA's Response

During the 2019 mass enrollment period, when SCE changed rates four times in six months, CPA automatically followed each SCE rate adjustment within a month to six weeks. This haste led to both stakeholder and customer confusion and financial instability for CPA. Subsequently, the Board encouraged CPA staff to bring fewer rate changes forward and to be more deliberate in analyzing the financial repercussions of each rate change. In 2020, for example, CPA made a major rate change for all customers just once even though SCE changed rates four times.

One consequence of this new approach was that in 2019 and 2020 there were periods when CPA bill comparisons fluctuated within and outside the target discount/premium ranges, with mixed impacts to customers, and sometimes different impacts for different types of customers. CPA observed no significant changes in customer choice or opt-activity during these times.

After consulting with the Executive Committee, staff believes it is fiscally prudent to wait until after the expected SCE June rate change to bring a 2021 rate adjustment to the Board. Waiting until June is expected to decrease CPA's 2021 revenue reduction from $65 million to $21 million in the following manner, assuming rates are brought back to the standard bill comparison targets:

	No 2021 CPA Rate Update	Update CPA Rates Feb. 2021	Update CPA Rates July 2021
2021 Revenue	$798 million	$733 million	$777 million

The main drawback to this approach is that for the period from February through June, or about three months longer than would typically be the case, CPA rates will fall outside of the target bill comparison ranges in the following manner:

	Lean	Clean	100% Green
Target Discount/Premium Range	-1%- -2%	-1%-0%	7-9%
Feb.-June Discount/Premium	1.5%-2.5%	2.5-3.5%	10%-12%

In terms of customer bill impacts, this equates to an additional $3.82 per month for the typical residential customer and $5.11 per month for the typical commercial customer regardless of which rate product they are on.

Although allowing CPA's rates to fall outside the ranges is not ideal, waiting to change rates until after SCE's June rate change has several customer and fiscal benefits:

- Provides rate stability by limiting CPA rate changes to once per year
- Keeps CPA on track to meet fiscal year 2020-2021 financial targets and credit covenants
- Significantly reduces revenue shortfall, providing more flexibility for how to close the remaining revenue gap

Next Steps

Over the next month, staff is refreshing cost/budget forecasts and developing a new cost-of-service analysis. Staff will also be identifying potential opportunities to fill the revenue gap through changes to energy procurement targets, developing options to enhance revenue based on the cost-of-service results, and exploring ways to reduce overhead expenditures. Staff will report back to the Board in March with a detailed update on these efforts, including any potential actions.

Financial Performance

CPA's financial performance through the fall continues to be impacted by the extreme heat events in August and September 2020, temperatures in October that were significantly above normal, and allowances for bad debt due to COVID-19 customer delinquencies. Net income for the month of November was $2.2 million compared to a budgeted loss of 1.3 million. Year-to-date net income through November was $2.9 million, compared to a budget forecast of $20.2 million. CPA has used just over $6 million of its fiscal stabilization fund to date.

Further details are provided in the attached financial dashboards for October and November (Attachment 1). Year to date financial results were discussed in depth with the Finance Committee at its January 27th, 2021 meeting and results from the first half of FY 2020/2021 will be presented to the Board in March. CPA is currently in sound financial health with $67 million in unrestricted cash available, a fiscal stabilization fund balance of $20.5 million and is in compliance with all its credit covenants.

Community Default Changes

Over the course of December and January, the City Councils of Calabasas and Camarillo voted to changes their default levels. Calabasas will be moving to 100% Green Power and Camarillo will be moving to Clean Power. These cities join Agoura Hills and Manhattan Beach, who are also changing their default rate levels to 100% Green Power effective October of 2021.

The deadline for making default changes this year has now passed. For default changes effective October of 2022, the deadline for notifying CPA is December 31, 2021.

COVID-19 Bill Credit Program Status and Sunset

CPA has now distributed over 70,000 bill credits worth more than $1.8 million. As of January 11, 2021, the following credits have been authorized.

Program Type	Bill Credit Amount	Number of Accounts
CARE/FERA/Medical Baseline	$1,394,327	56,002
Residential Payment Plan	$328,170	13,132
Small Commercial Payment Plan	$91,318	1,856
Grand Total	**$1,813,815**	**70,990**

With the $2 million budget nearly exhausted and new sign-ups for the program significantly declining, CPA will be ending this program and no longer taking bill credit requests as of February 15, 2021. The standard CARE/FERA/Medical Baseline discounts, which provide ongoing bill discounts of up to 30%, are still available to customers, as are customized payment plans.

During the first half of 2021, CPA will transition its customer assistance focus to a new state-funded Arrearage Management Program (AMP) that will help customers who are able to maintain current payments but have past delinquencies. This program will also help CPA recover some of its bad debts, which have increased significantly during the COVID-19 pandemic. The Power Share program will also provide ongoing 20% bill discounts to approximately 6,000 customers. A complete update on the AMP and other 2021 customer assistance programs will be provided at an upcoming Board meeting.

Customer Opt-Actions and Transition to Participation Rate

Effective February 1, 2021 CPA has shifted to reporting Participation Rates instead of Opt-Out Rates as the primary way to track customer retention and communicate the popularity of CPA service. Over 95% of CPA's eligible customers have chosen to remain with CPA service, demonstrating the value they see in our ability to deliver cleaner energy at competitive rates.

Since mass enrollment has been complete for over a year and customer opt-activity has largely stabilized, Participation Rate is more accurate than Opt-Out Rate because it considers new service requests (move-ins) and service cancellations (move-outs) in addition to the eligible customer base CPA had at the time of mass enrollment. This dynamic accounting for the number of current active customers compared to a current count of eligible customers also allows CPA to monitor with greater precision any significant change in customer behavior or identify earlier potential enrollment challenges with SCE. Going forward, opt-out rates will be used only in limited circumstances, such as when a member agency changes their default level.

Because new customers in CPA service territory tend to opt-out with less frequency that those at mass enrollment, the Participation Rate being reported this month and in individual member agency dashboards is, in general, higher than the inverse of the opt-out rate. Under this new reporting methodology and as of January 26, 2021, CPA's overall participation rate is 95.2% with a total of 1,006.695 active customers, a number that has fluctuated very little over the past several months.

Program Marketing & Community Outreach

Webinars for member agency staff were held on January 7 and 12 to explain CPA's Power Ready program. The program aims to provide a clean back-up power system at an essential facility in each of CPA's 32 member jurisdictions, providing community resilience during PSPS events, extreme heat evets, natural disasters, or other outages while also providing benefits to CPA during normal operation in the form of load shifting or wholesale demand response revenue.

Staff from 19 member agencies attended one of the webinars, a recording of which is available here. CPA program staff is currently following up with member agency staff who were unable to join the webinar. During the Webinar, member agency staff were asked to use Google Forms to provide facility and checklist details by February 28. The Google intake form asks for information on critical loads, potential community benefit, and site parameters for up to 5 sites for consideration, in order of priority. CPA Program staff and its consultant EcoMotion are currently available to help answer any questions or concerns for member agency staff through this process. CPA expects to have an initial set of projects for bid by summer 2021.

Preparations for the full launch of Power Share (DAC-GT) this month are ongoing. Surveys in English, Spanish and Chinese are being conducted to get input on the most-effective way of communicating this CPUC-funded program. Our Community Based Organization grantees are also being utilized to promote the Power Share program to potential customers in advance of a full launch, along with outreach regarding the Power